



# Market Outlook

March 2024

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An aerial photograph of a city skyline, likely Austin, Texas, featuring a river with several bridges and a dense cluster of skyscrapers in the background. The image is overlaid with a dark blue gradient.

## Table of Contents:

- **Market Review**
- **Economic Overview**
- **Stocks and Bonds**

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An aerial photograph of a city skyline, likely Minneapolis, Minnesota, featuring a river (the Mississippi River) with several bridges, surrounded by dense greenery and modern high-rise buildings. The sky is a clear, deep blue.

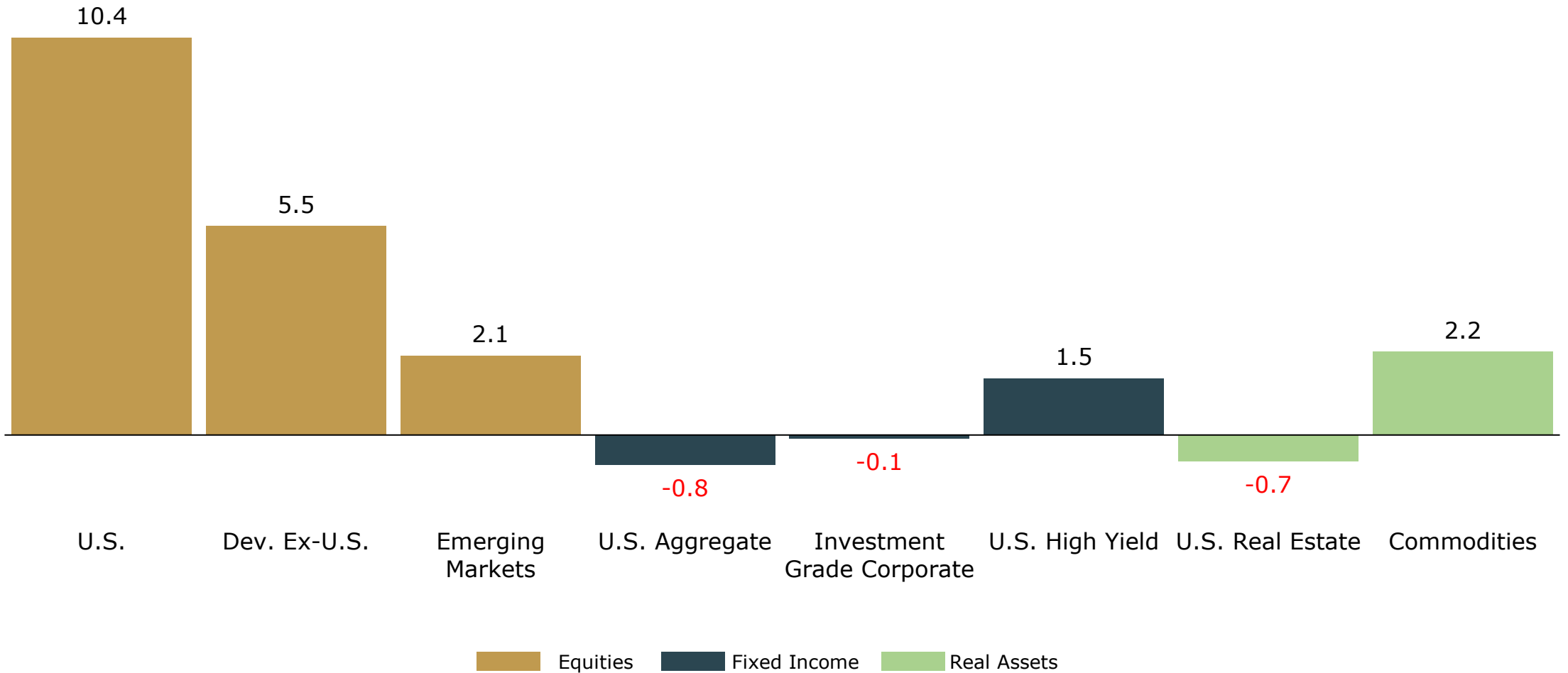
# Market Review

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# Market Review

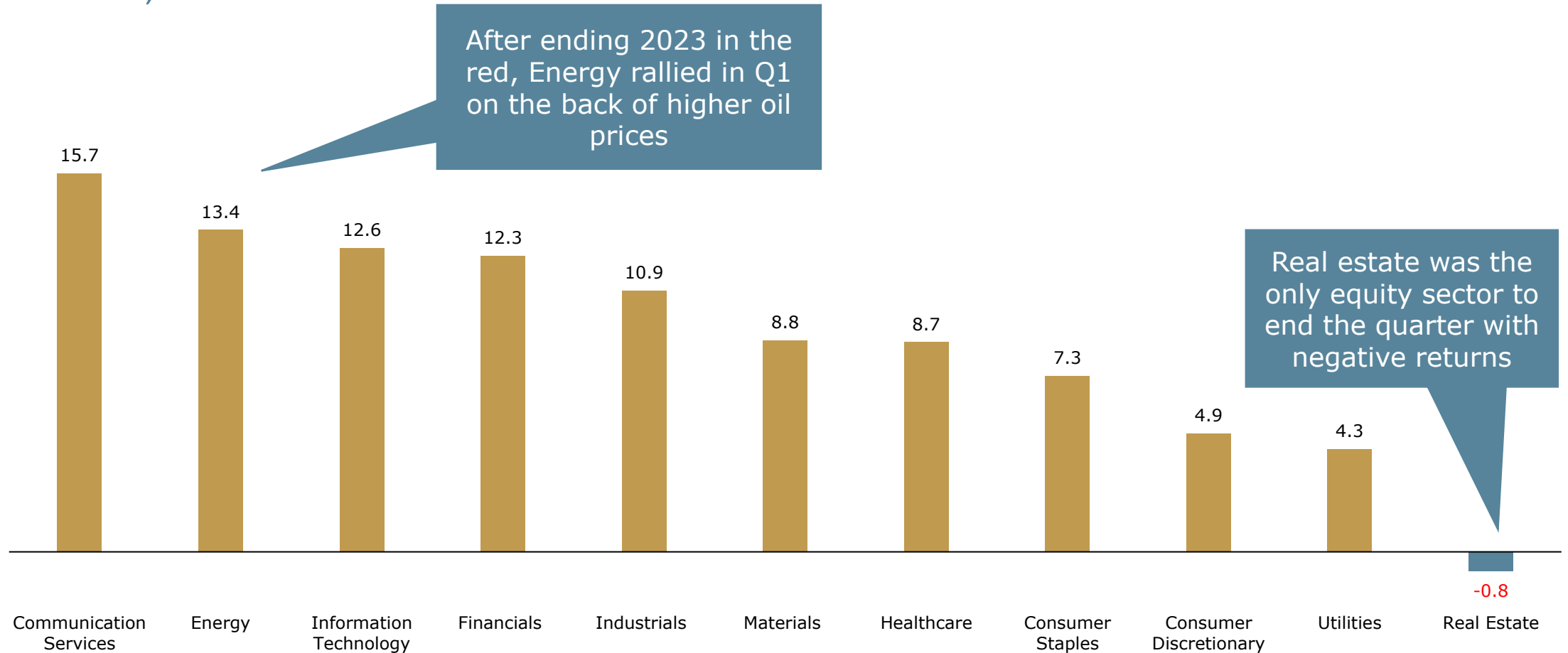
YTD Returns, %



**Past performance is not a reliable indicator of current or future results. Indexes are unmanaged and not subject to fees. It is not possible to invest directly in an index.** Note: views are from a U.S. dollar perspective. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast or guarantee of future results. Source: Kestra Investment Management with data from FactSet. Index proxies: Bloomberg U.S. AGG Bond Index, ICE BofA U.S. Corporate, ICE BofA U.S. High Yield, S&P 500, MSCI EM, MSCI World ex US Index, Dow Jones U.S. Select REIT, and Bloomberg Commodity Index. Data as of March 28, 2024.

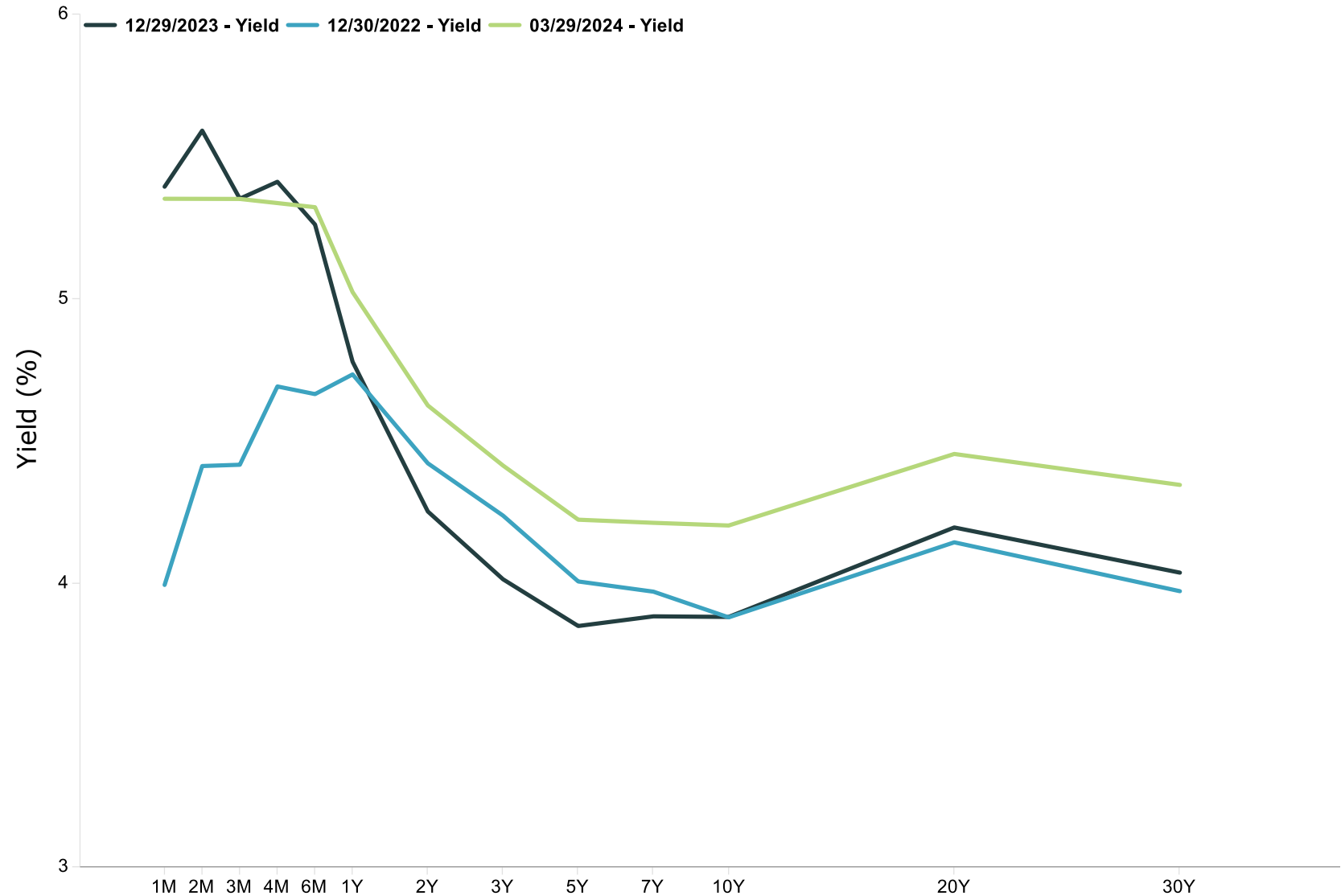
# US Equity Sectors

YTD Returns, %



# Treasury Yield Curve

- Since year end 2023, the yield curve has experienced a “bear steepener,” where long-term rates increase more than short-term rates, which typically occurs when investors are concerned about inflation
- The Treasury yield curve has been inverted, with short-term rates higher than long-term ones, since October 2022



An aerial photograph of a city skyline, likely Minneapolis, Minnesota, featuring a river (the Mississippi River) with several bridges, including the Hennepin Avenue Bridge and the Stone Arch Bridge. The skyline is dominated by modern high-rise buildings, with a prominent blue-glass skyscraper in the center. The foreground shows lush green trees and a road with a few cars. The sky is a clear, deep blue.

# Economic Overview

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# Economic Dashboard

As inflation remains above target and job reports show continuing strength in the economy, expectations for rate cuts have fallen dramatically. Manufacturing has finally shown signs of life, while consumers continue to feel the impact of higher rates.



## Monetary Policy



Because of hotter inflation data, the Federal Reserve is expected to push out interest rate cuts to later in the year



## Manufacturing



Manufacturing entered expansionary territory for the first time since October 2022



## Consumer



Consumer balance sheets remain relatively healthy and spending continues, though delinquencies are increasing and confidence remains low



## Housing



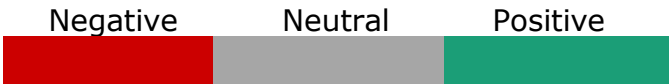
While housing supply remains low, mortgage rates are high and affordability low



## Labor



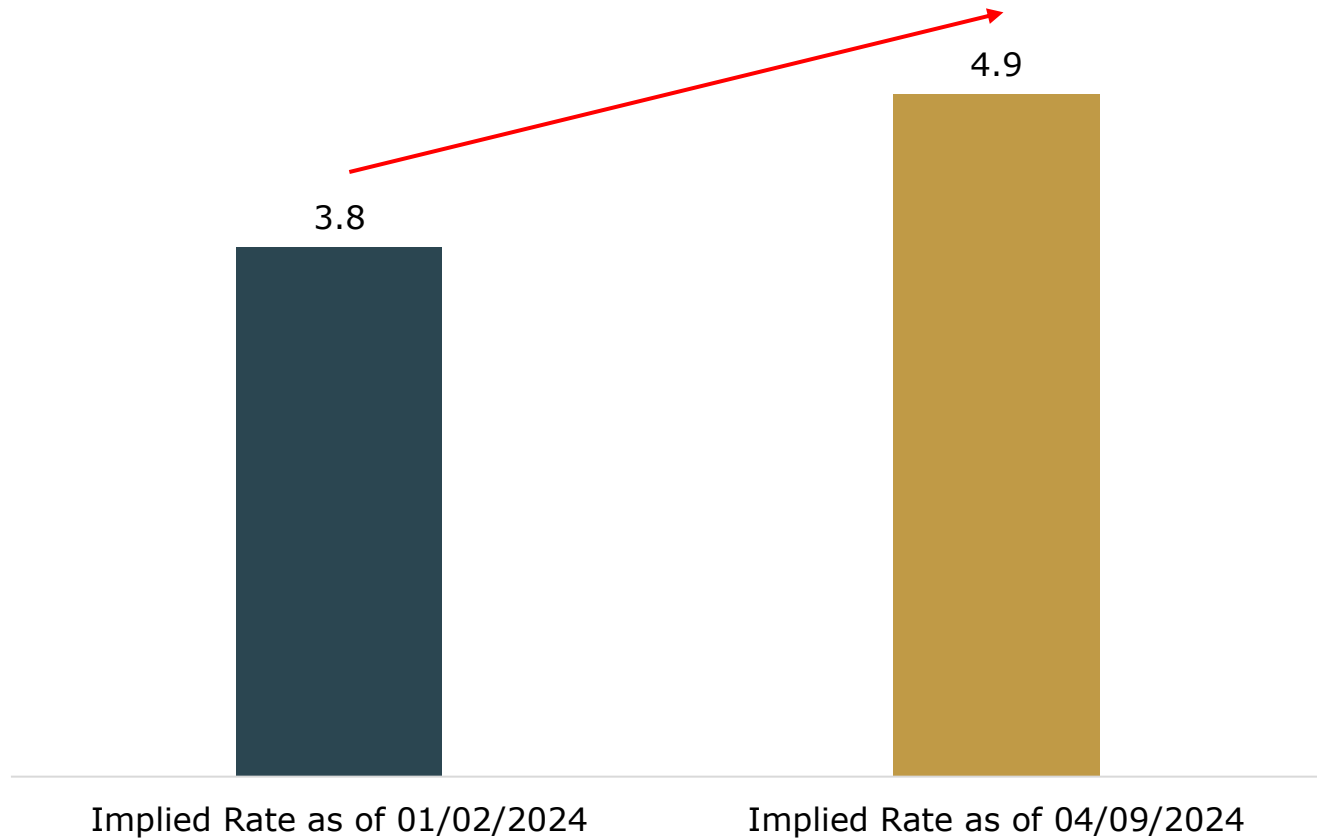
Job openings are plentiful, suggesting a tighter-than-comfortable labor market



# Higher for How Long?

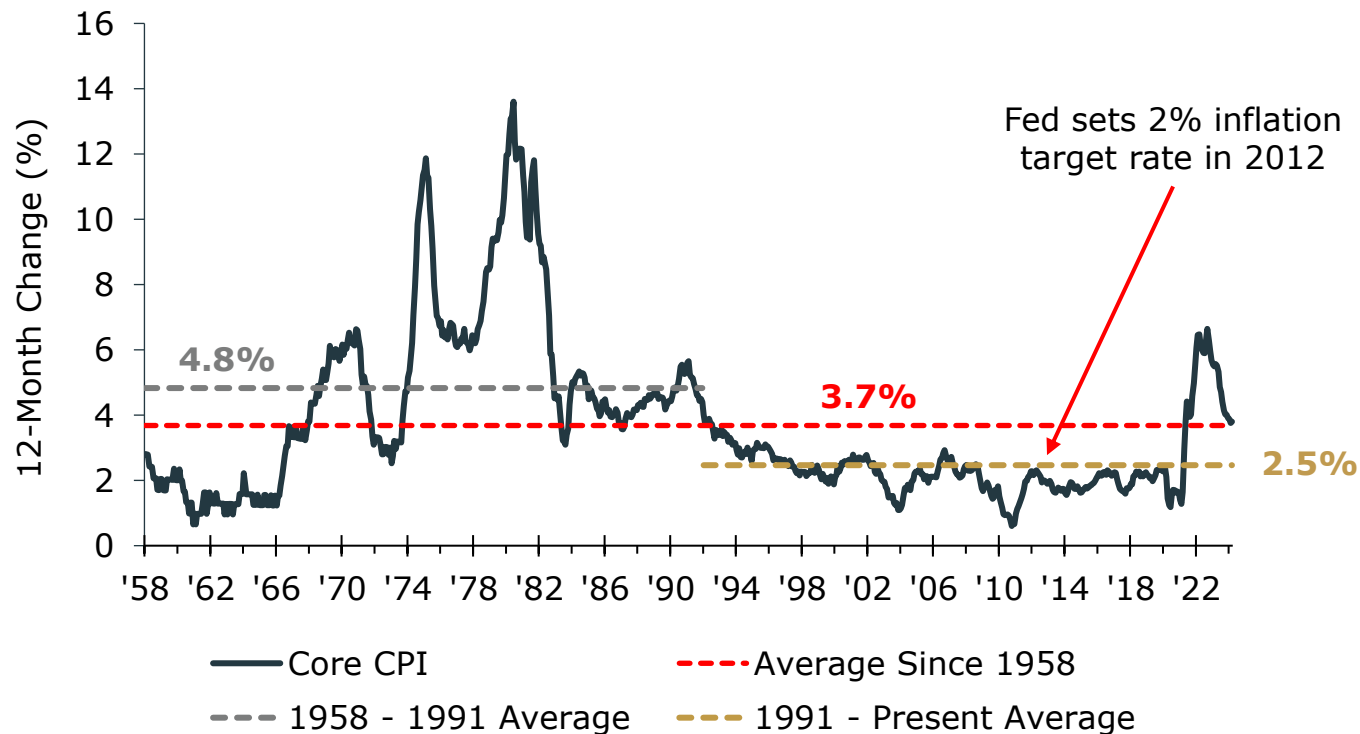
Markets have tapered expectations for rate cuts since the beginning of this year. The expectation is now that the Fed will keep rates higher for longer

Implied YE Fed Funds Futures (%), as of 04/15/2024



# The Fed May Be Challenged to Get to 2% Inflation

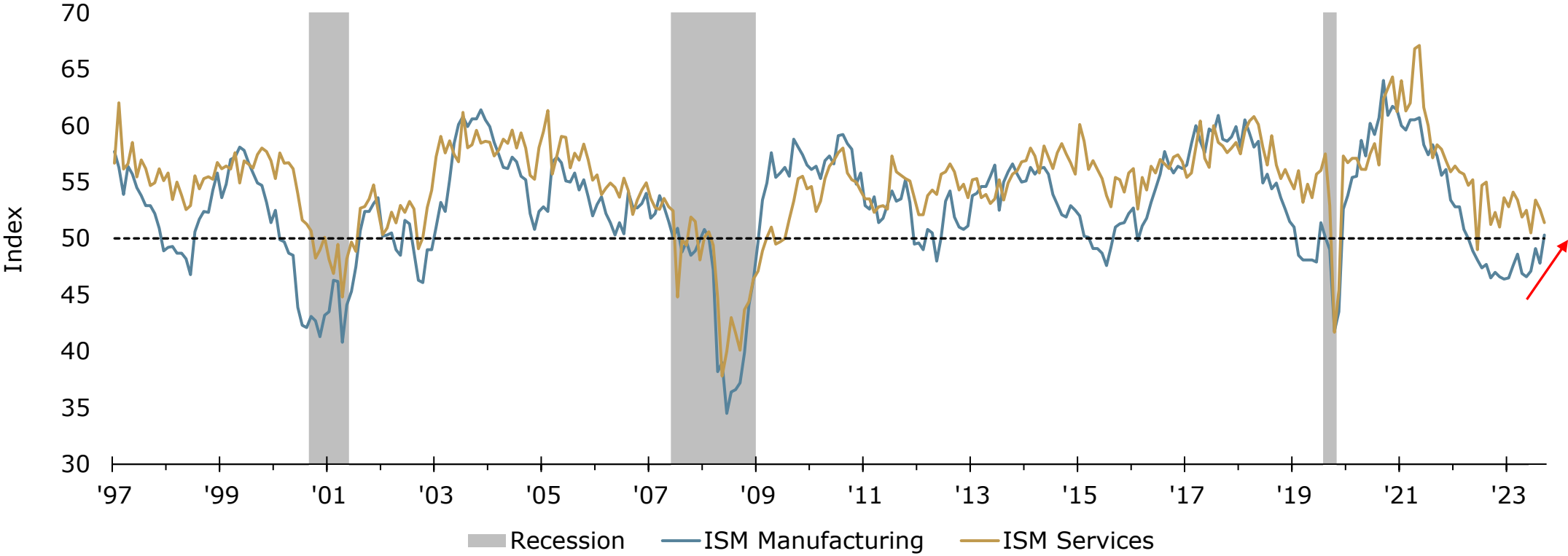
## Core CPI 12-Month Percent Change



Over the long run, average Core CPI has been nearly 4%. From 2012 until COVID, Core CPI averaged 2%.

# Manufacturing Activity Accelerating

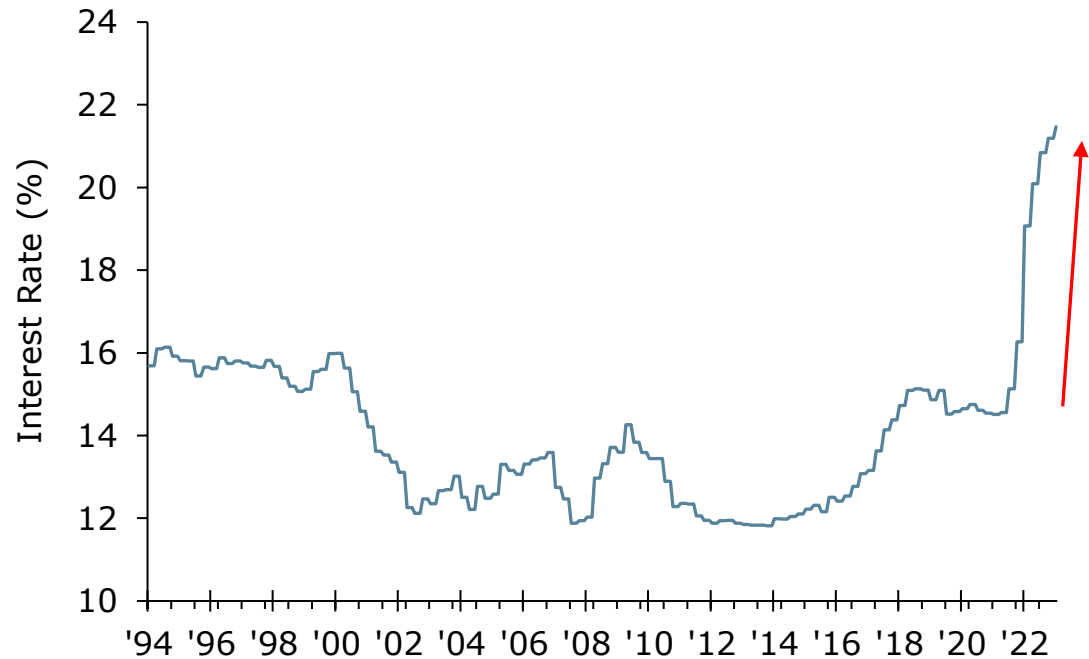
## ISM Manufacturing and Services Indexes



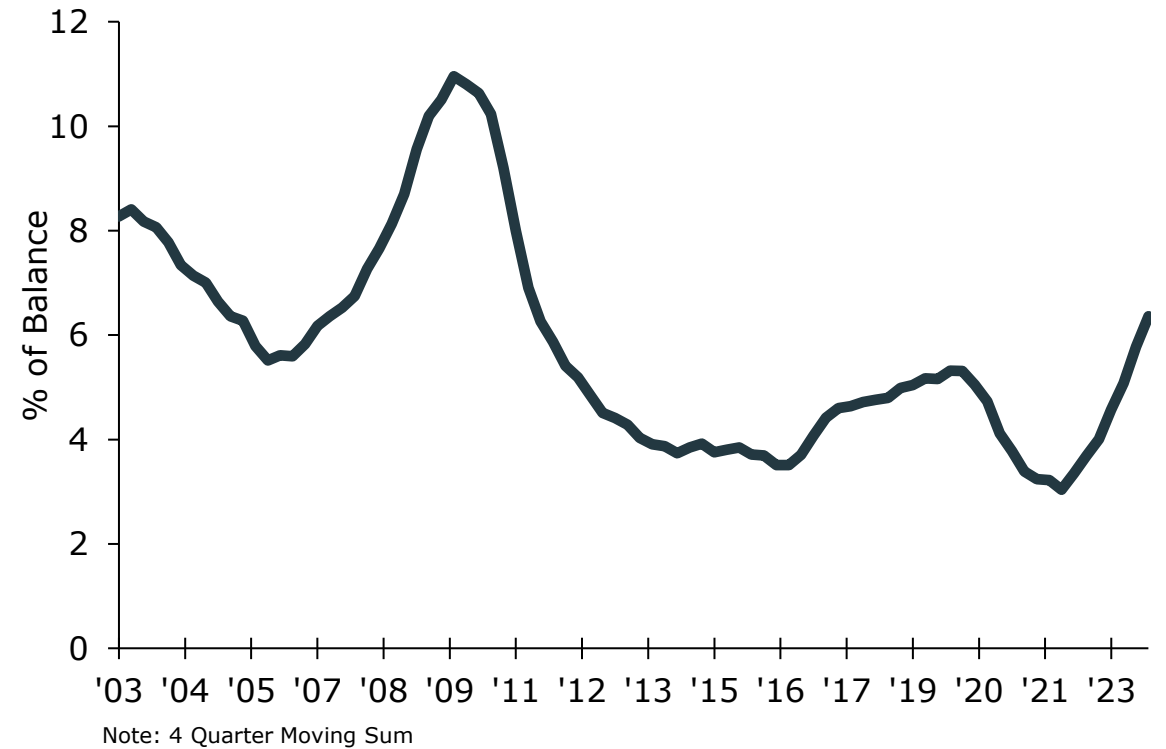
After contracting for 16 consecutive months, the ISM Manufacturing Index entered expansionary territory. Its companion index, ISM Services, has weakened, but remains in expansion territory

# Consumers: Feeling the Pinch of Higher Rates

Average Interest Rate for All Credit Card Accounts, 1994 to Present



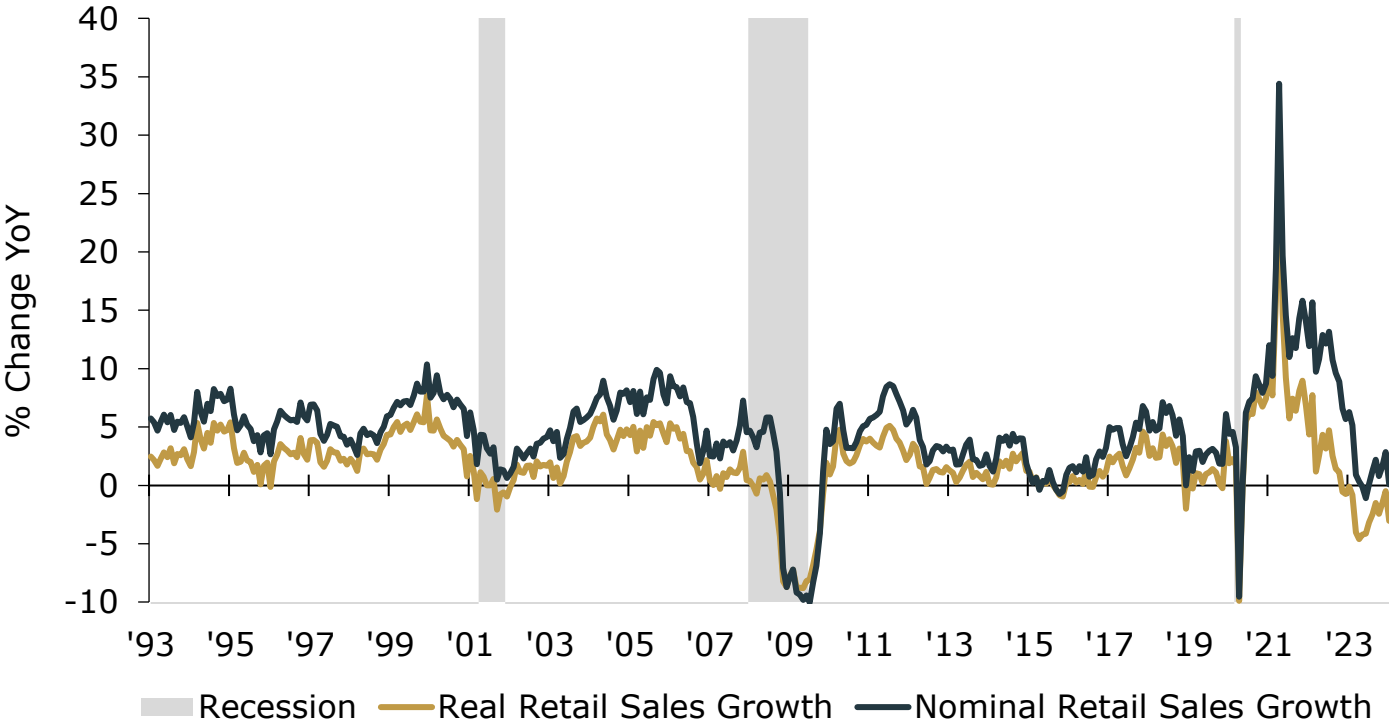
New Seriously Delinquent (90+ days) Credit Card Balances



Interest rates on credit cards have increased substantially, prompting more borrowers to miss payments

# Retail Spending

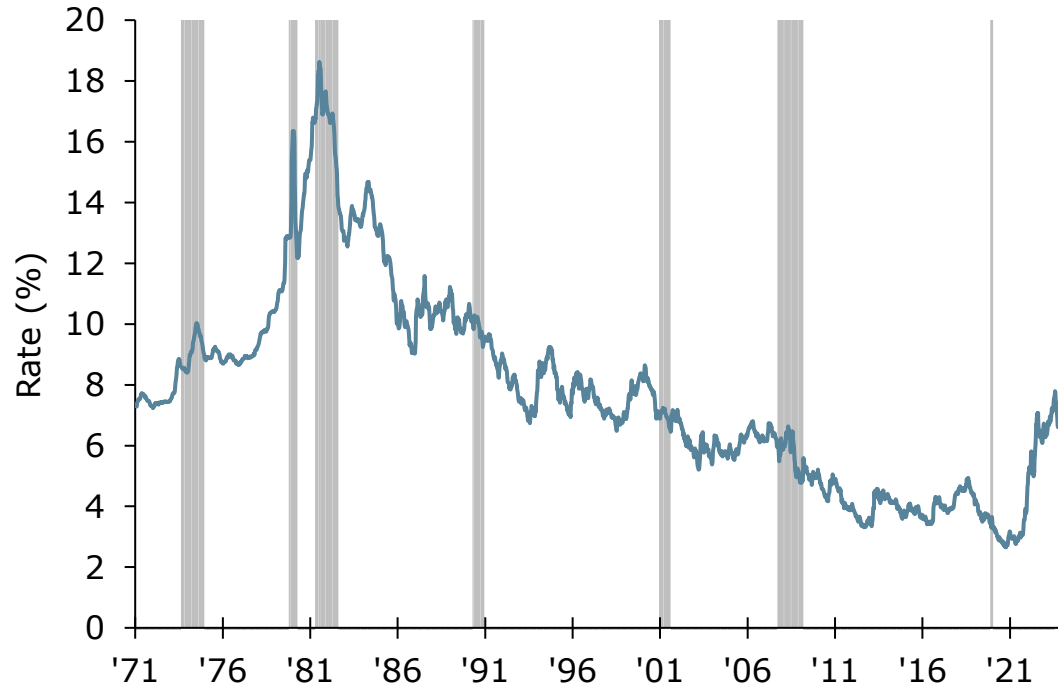
Nominal vs Real Retail Sales ex. Autos



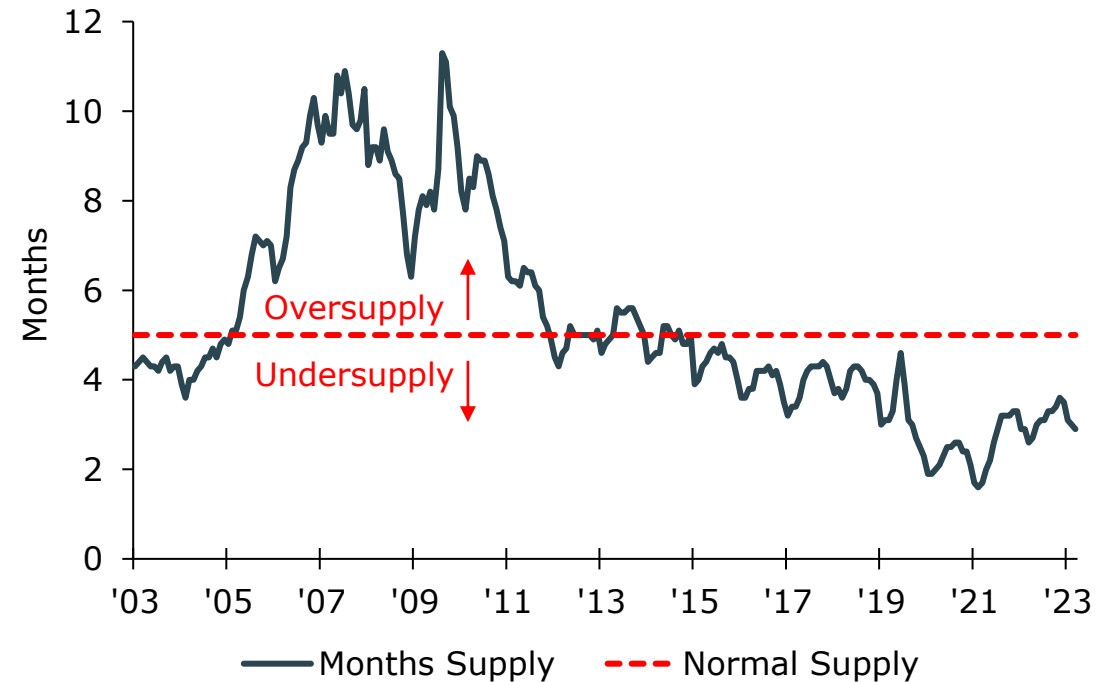
In 2020 and 2021, retail sales boomed, helped by Covid-era stimulus payments. Since that time, however, sales have decelerated dramatically. Adjusted for inflation, retail sales excluding automobiles has been declining for over a year.

# Housing Market Remains Tight Despite Higher Interest Rates

### U.S. 30-Year Fixed Rate Mortgage Average



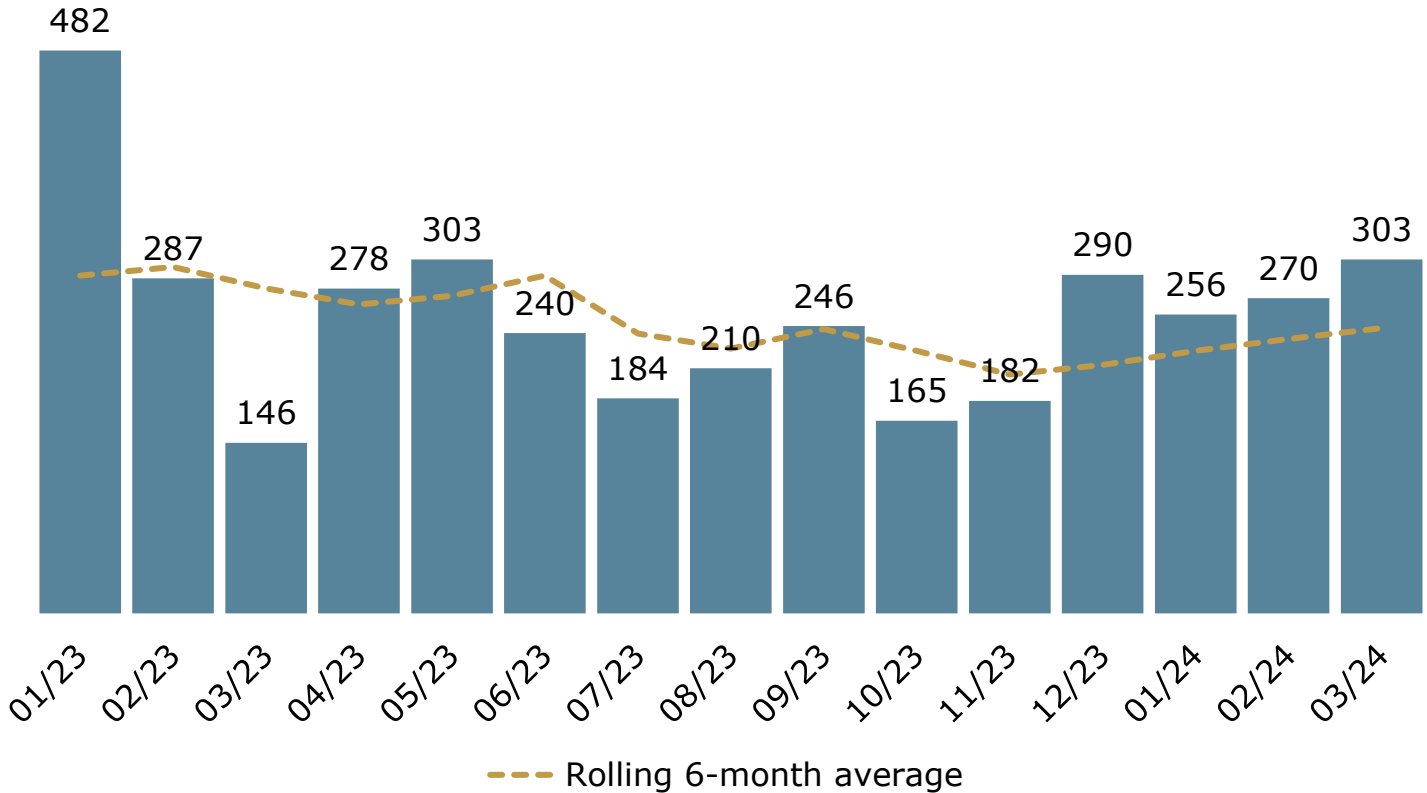
### Months Supply of Existing Homes for Sale



Fixed mortgage rates have remained near 25-year highs. Although the supply of existing homes has improved to pre-covid levels, there remains a limited number of homes for sale

# Labor Market Beginning to Soften

Non-Farm Payrolls, Month-Over-Month Growth (Thousands of Persons)



New jobs continue to be created at a surprisingly strong pace, buoying wage growth and complicating the Federal Reserve's efforts to slow inflation

An aerial photograph of a city skyline, likely Minneapolis, Minnesota, featuring a river (the Mississippi River) with several bridges, surrounded by dense greenery and modern high-rise buildings. The sky is a clear, deep blue.

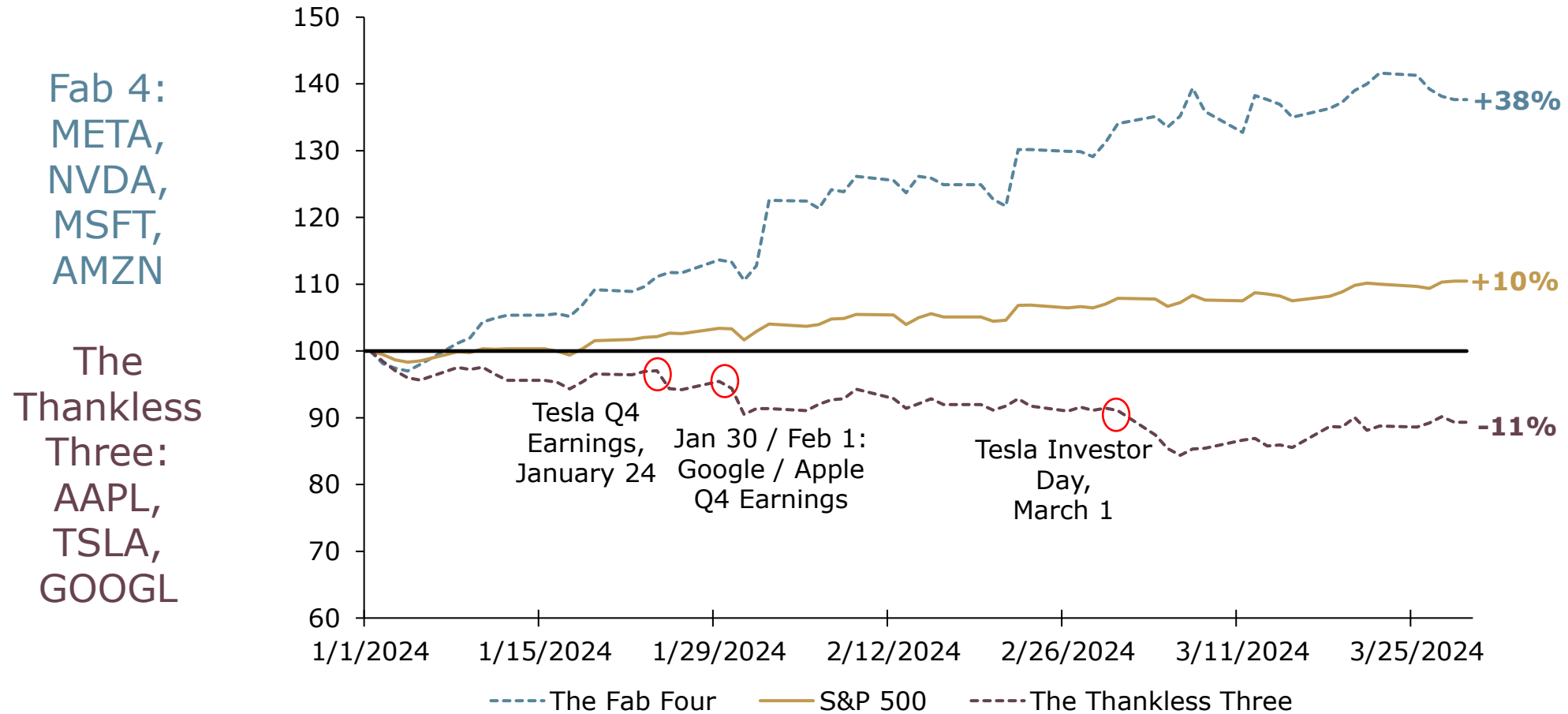
# Stocks and Bonds

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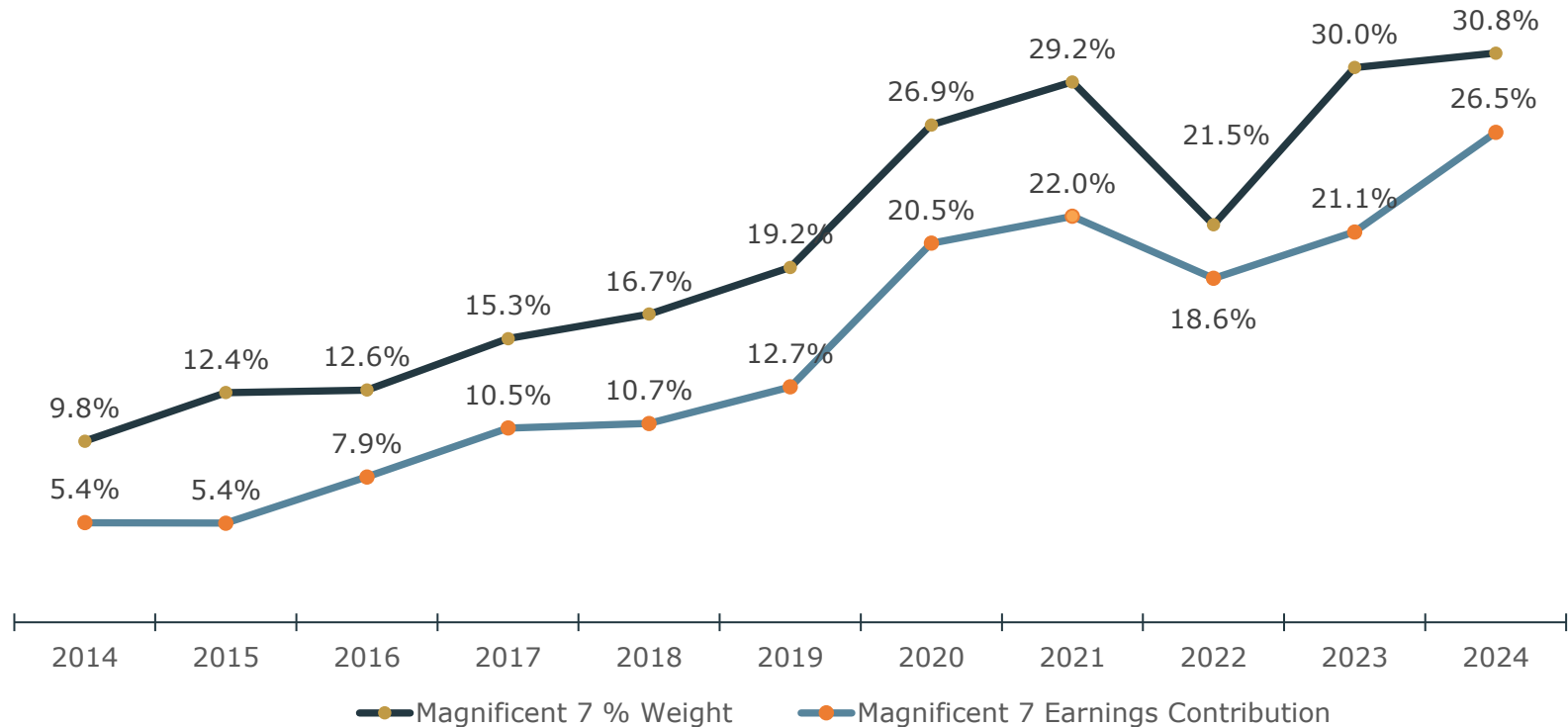
# The Magnificent Break-Up



Since January 1, four stocks from The Magnificent Seven have outperformed the S&P 500, while the remaining three have declined

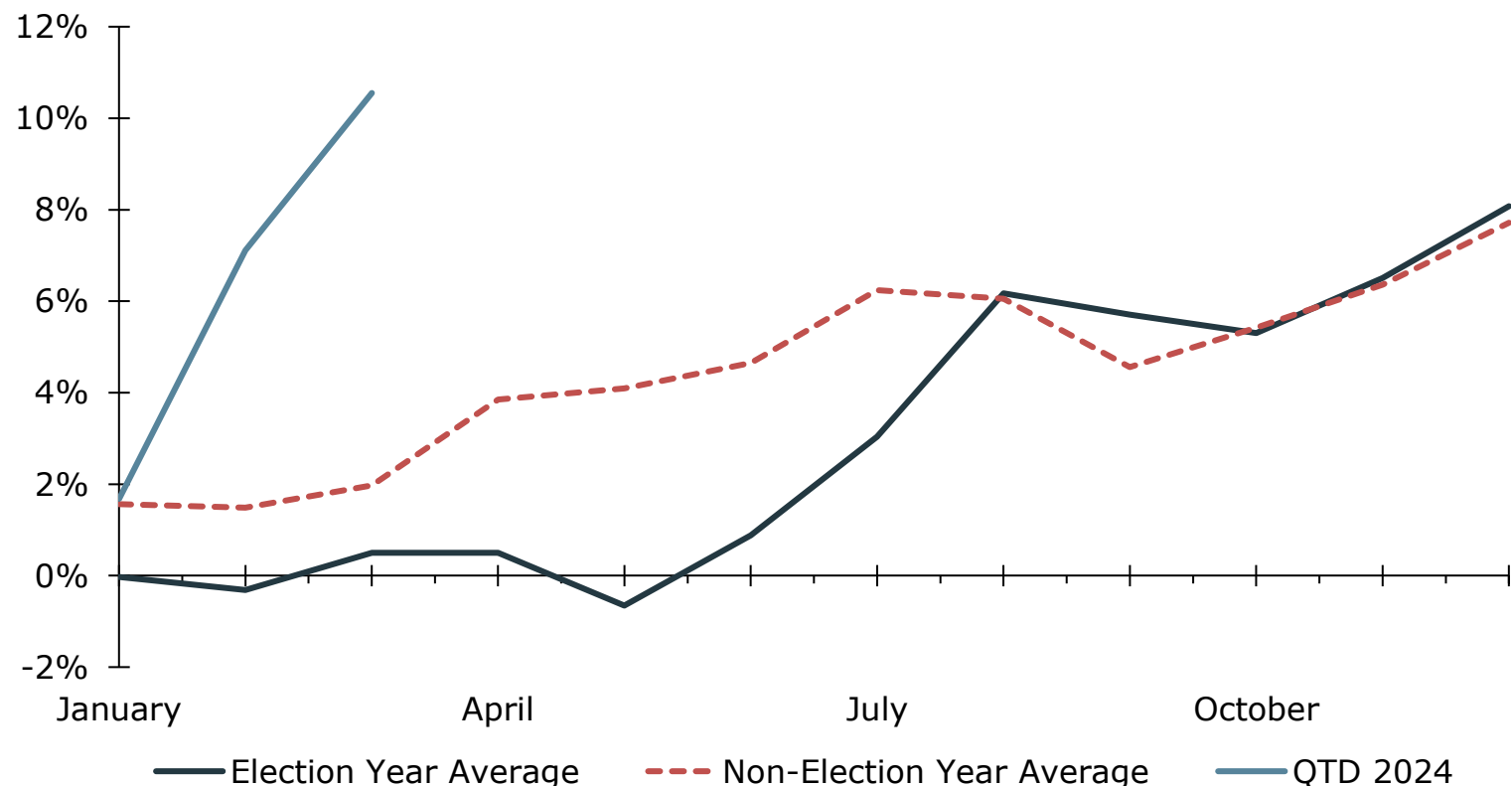
# The “Magnificent 7” Grew Largely in Lock Step with their Earnings

Stocks in The Magnificent 7, combined market cap as % of S&P 500 and combined contribution to S&P 500 earnings



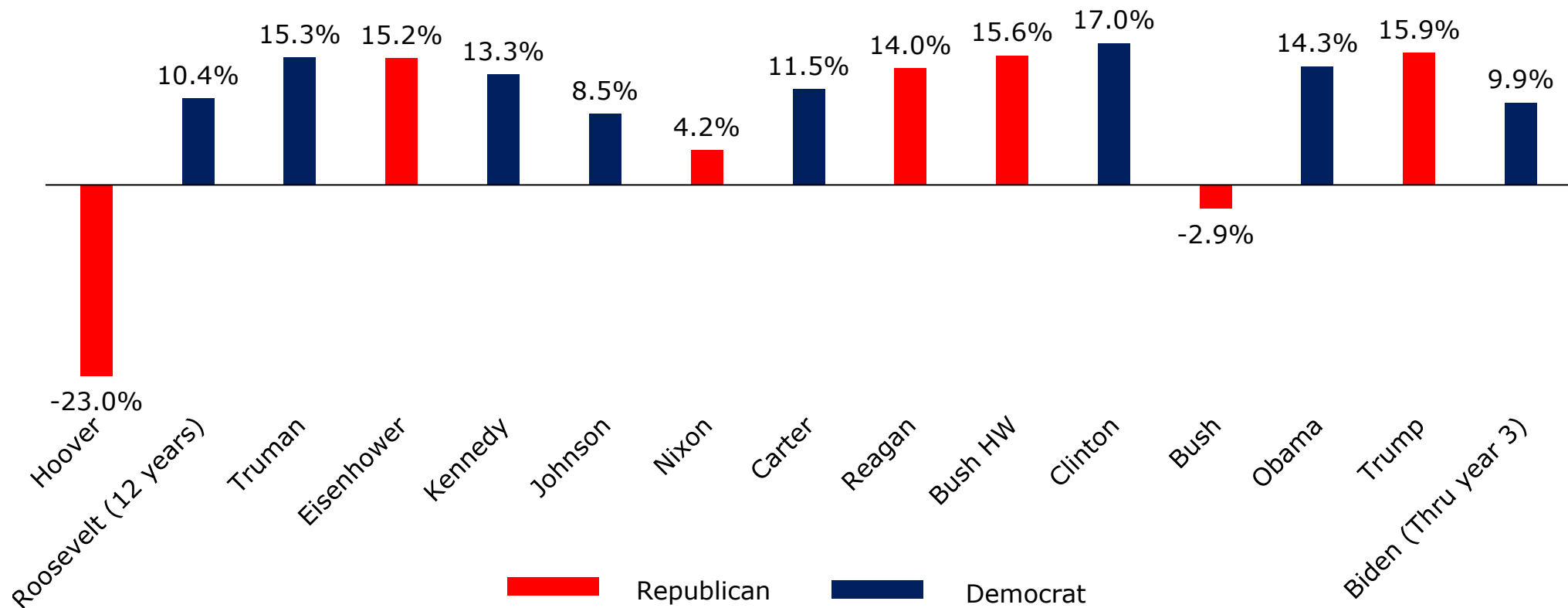
# Returns During Presidential Election Years

Average S&P 500 return for election years, non-election years and current year to date



- Election years typically have similar returns as non-election years, though most of the return often comes in the second half of the year
- This year the market has been stronger than is typical, driven by a combination of stronger earnings and a narrower field of candidates

# S&P 500 Annualized Returns by President

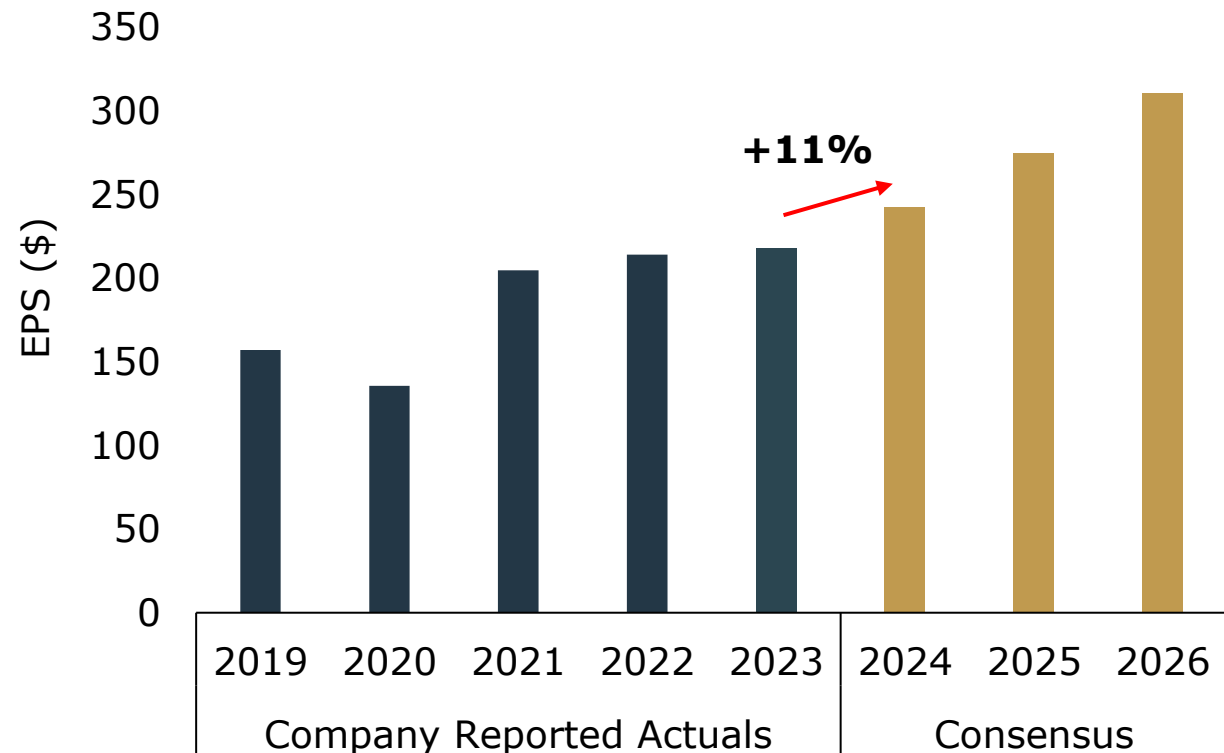


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# Corporate Earnings Rebounding

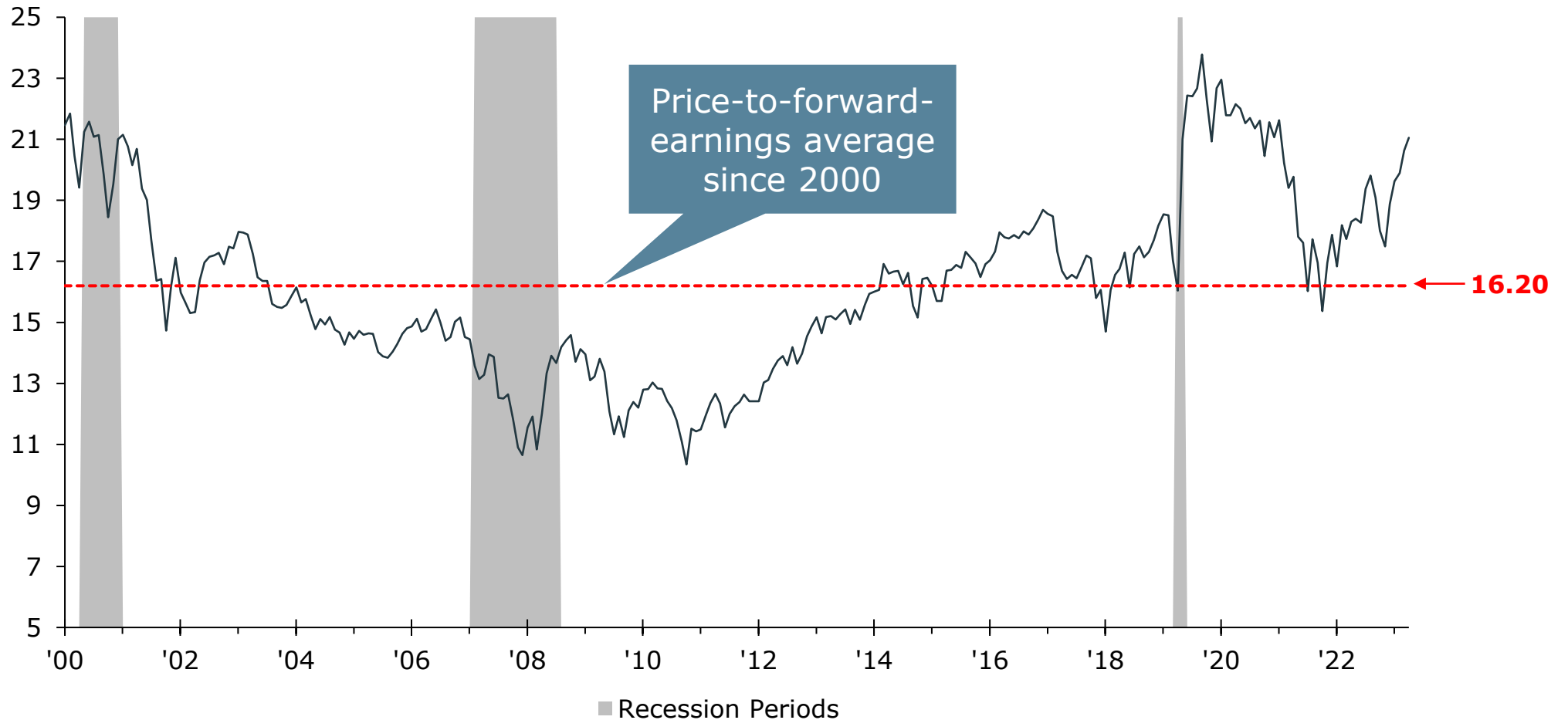
- After increasing significantly since 2020, actual earnings have stabilized
- Analysts currently expect 11% increase in earnings in 2024 versus 2023, a slight downward revision from 12% at the beginning of the year

**S&P 500 Calendar Year Bottom-Up EPS  
Actuals & Consensus Estimates**



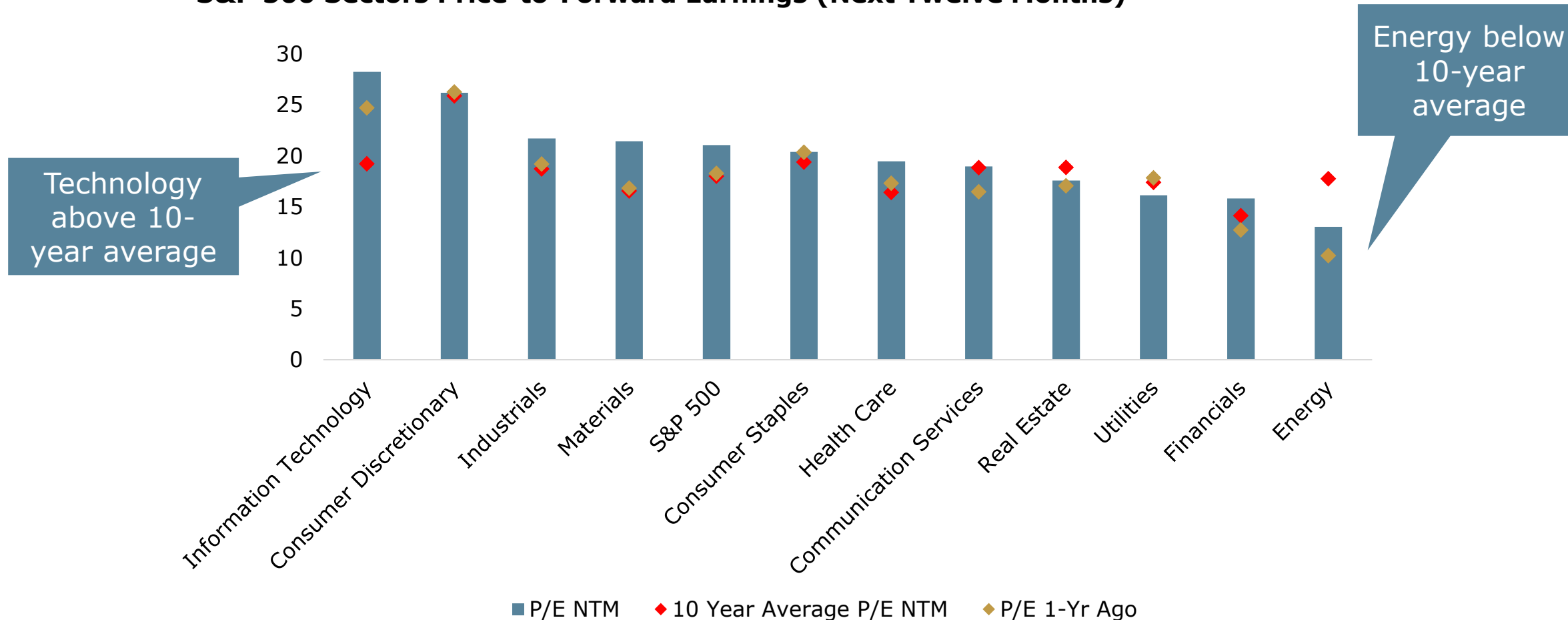
# Valuations Above Average

## S&P 500 Price to Forward Earnings (Next Twelve Months)



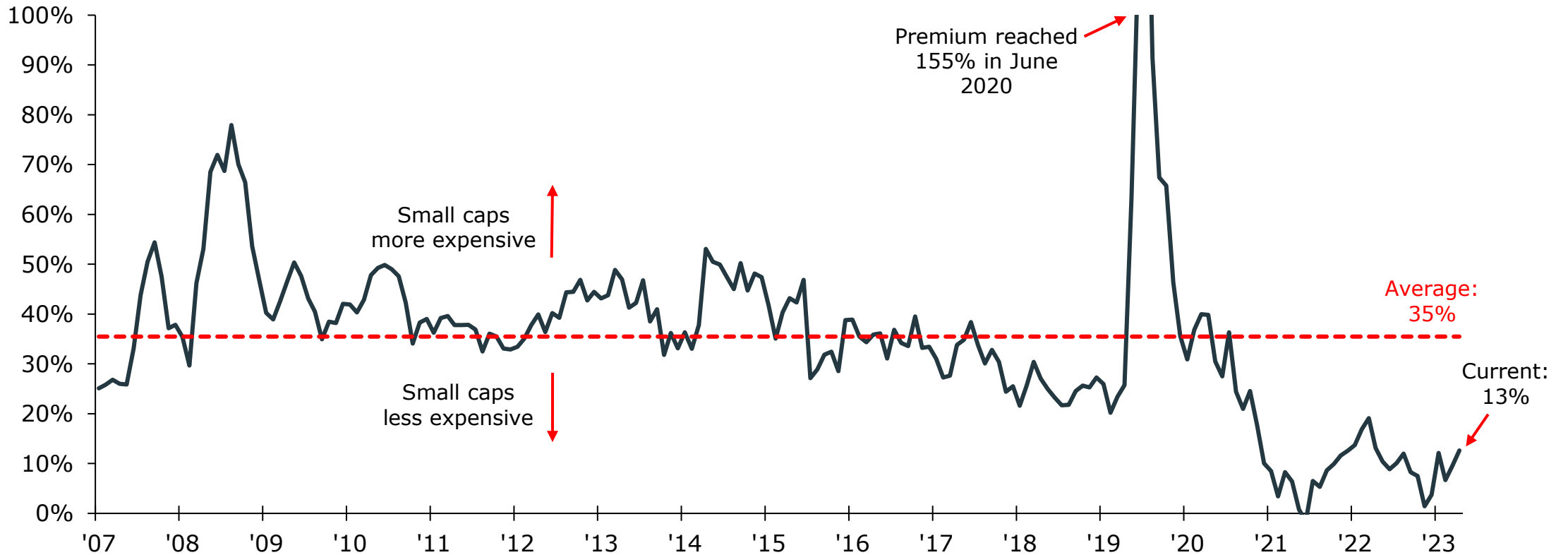
# Valuations by Sector

## S&P 500 Sectors Price-to-Forward Earnings (Next Twelve Months)



# Small Caps Unloved

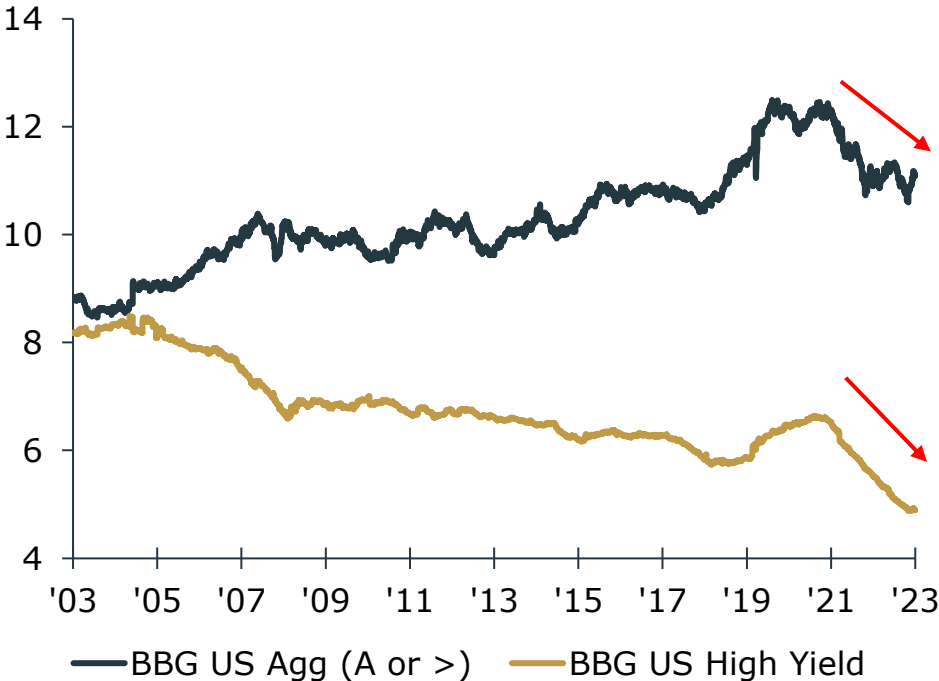
## Russell 2000\* vs S&P 500 Valuation Premium



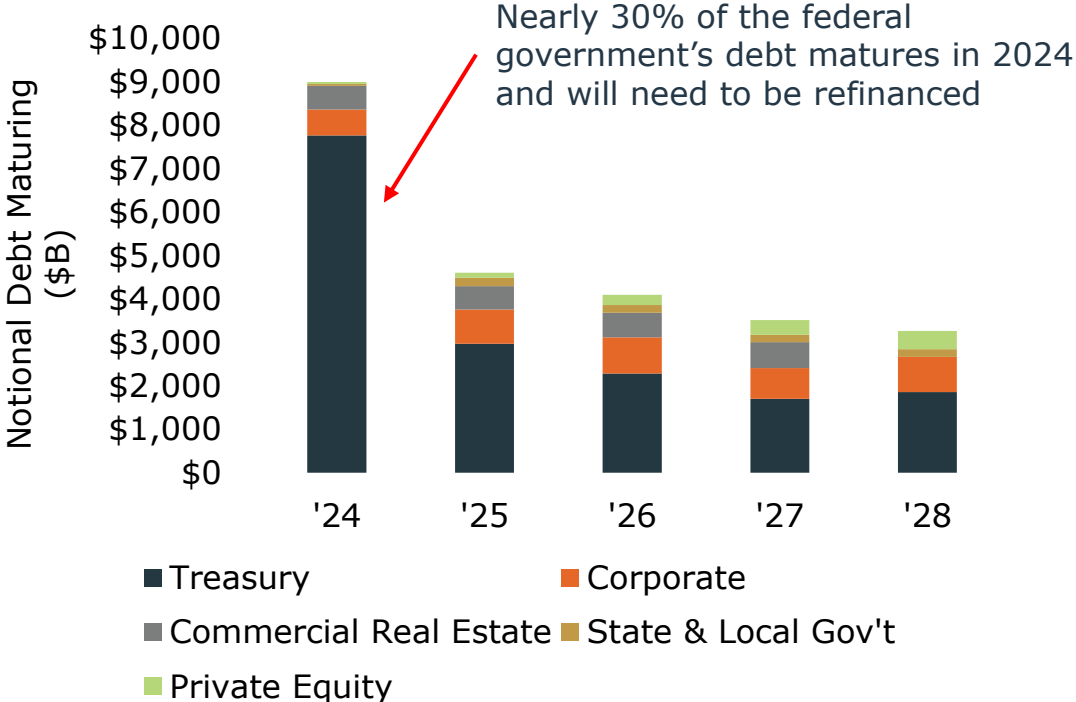
\*IWM used as a proxy for the Russell 2000

# Debt Maturities

**Average Corporate Loan Term (Years)**



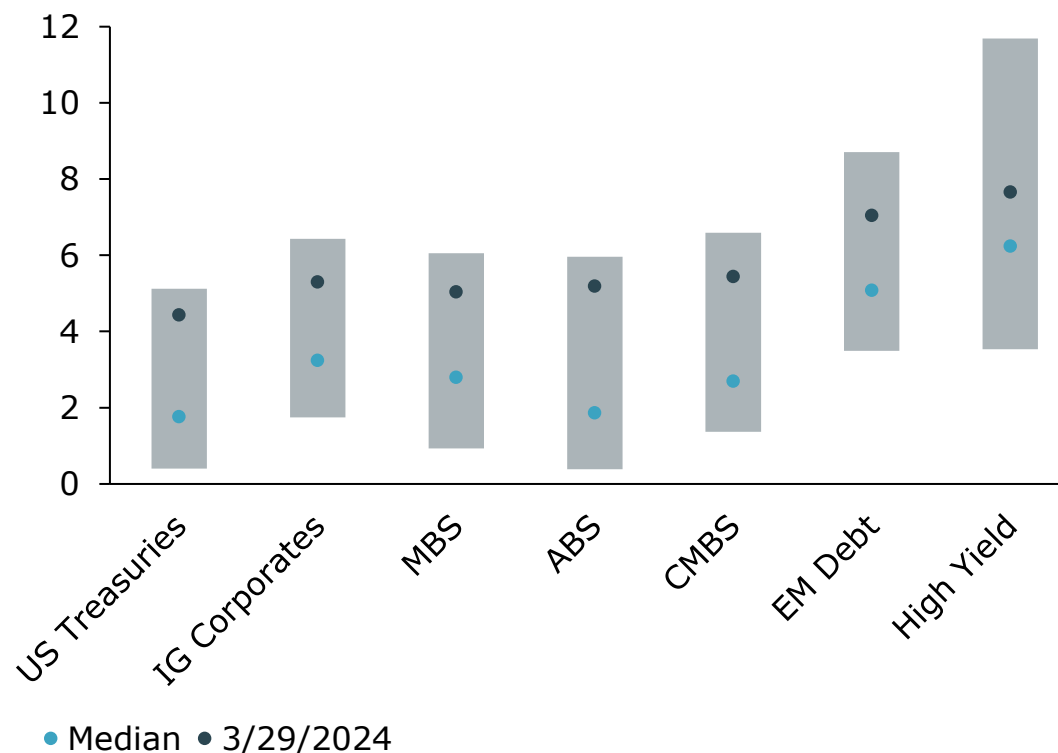
**Debt Due by Year**



# Fixed Income

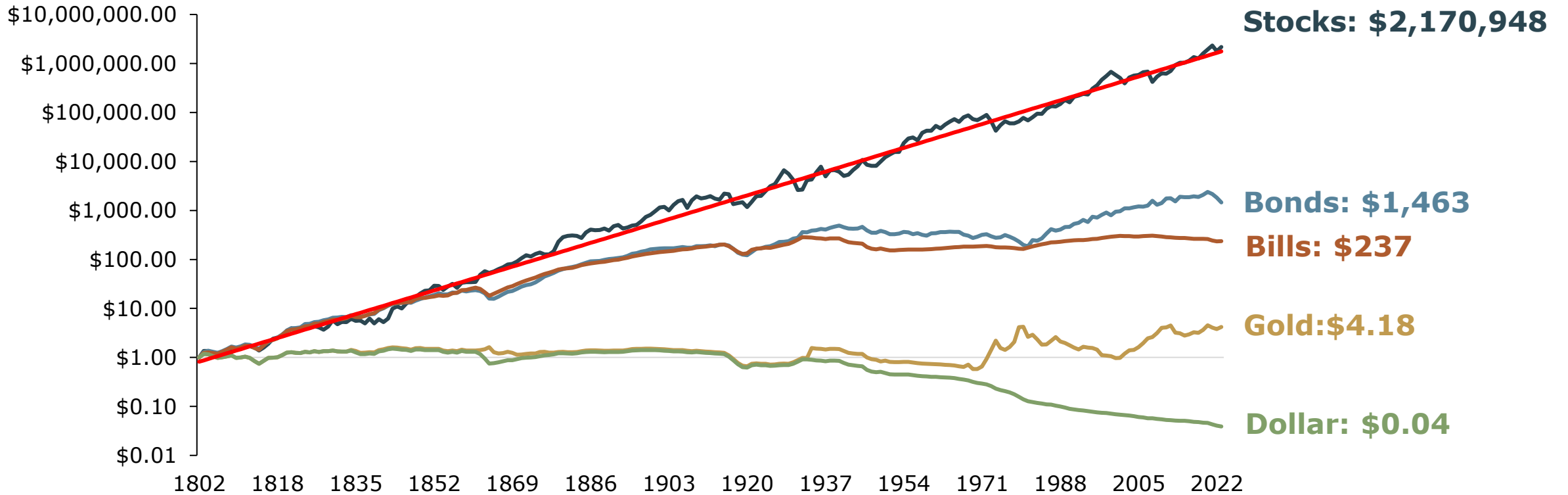
- The income available in fixed income is more attractive than it's been in many years, even as yields have come down from September 2023 levels.
- Inflation and tighter monetary policy mean that choosing the right bonds has become more complex, particularly with high yield

**10-Year Yield-to-Worst (%) - March 2024**



# Stocks for the Long Run

## Growth of \$1, Adjusted for Inflation



“Stocks are the most volatile asset class in the short run, but the most stable in the long run.”

Professor Jeremy Siegel



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Live Richly**

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